

**Tennessee Board of Regents
State Technical Institute at Memphis**

**For the Years Ended
June 30, 1998, and June 30, 1997**

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August 4, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles E. Smith, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. M. Douglas Call, President
State Technical Institute at Memphis
5983 Macon Cove
Memphis, Tennessee 38134

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, State Technical Institute at Memphis, for the years ended June 30, 1998, and June 30, 1997. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The institute's administration has responded to the audit finding; the response is included following the finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sk
99/026

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
State Technical Institute at Memphis
For the Years Ended June 30, 1998, and June 30, 1997

AUDIT OBJECTIVES

The objectives of the audit were to consider the institute's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDING

Controls over restricted revenues and accounts receivable need improvement

Some receivables were established without adequate support, and some amounts had not been billed. Restricted revenues were overstated for one program, and a portion was misclassified for another program. For one program, it was difficult to determine the accuracy of accounts receivable because the invoices did not agree with the ledger.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Tennessee Board of Regents
State Technical Institute at Memphis
For the Years Ended June 30, 1998, and June 30, 1997

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**Tennessee Board of Regents
State Technical Institute at Memphis
For the Years Ended June 30, 1998, and June 30, 1997**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, State Technical Institute at Memphis. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

In 1963, the Tennessee General Assembly stated that the State Board of Vocational Education would establish regional technical schools to provide technical training in locations the board deemed necessary. Memphis was chosen as the site of one of the technical schools. State Technical Institute at Memphis’ first regular program of instruction began with the 1967 fall quarter. The institute was governed by the State Board of Vocational Education through the Tennessee Department of Education, Division of Vocational-Technical Education, until July 1, 1983. At that time, the 93rd General Assembly transferred the institute to the Tennessee Board of Regents.

State Technical Institute at Memphis offers two-year, college-level programs to prepare adults for employment as technicians in engineering, physical science, and computer science. These two-year programs lead to an Associate of Applied Science degree in Business, Computers, or Engineering Technologies. Also, the institute offers special programs and courses to meet the needs of industry, business, and government.

ORGANIZATION

The governance of State Technical Institute at Memphis is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board.

The chief administrative officer of the institute is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 1996, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the years ended June 30, 1998, and June 30, 1997. State Technical Institute at Memphis is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the institute's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The institute filed its report with the Department of Audit on December 11, 1997. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the institute has corrected the previous audit finding concerning an annual physical inventory of equipment.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the institute's financial statements for the years ended June 30, 1998, and June 30, 1997, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The reportable condition, along with the recommendation and management's response, is detailed in the finding and recommendation. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the institute's financial statements.

**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

April 1, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the State Technical Institute at Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1998, and June 30, 1997, and have issued our report thereon dated April 1, 1999. We conducted our audit in accordance with generally accepted government auditing standards .

Compliance

As part of obtaining reasonable assurance about whether the institute's financial statements are free of material misstatement, we performed tests of the institute's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the institute's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the institute's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted:

- Controls over restricted revenues and accounts receivable need improvement

This condition is described in the Finding and Recommendation section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the institute's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sk

FINDING AND RECOMMENDATION

Controls over restricted revenues and accounts receivable need improvement

Finding

The institute failed to properly record restricted revenues and establish accounts receivable for restricted programs. Some receivables were established without adequate support, and some amounts had not been billed. Restricted revenues were overstated for one program, and a portion was misclassified for another program. For one program, it was difficult to determine the accuracy of accounts receivable because the invoices did not agree with the ledger. The following weaknesses were noted:

- a. Receivables of \$16,080.93 for the JTPA PIC STOP program and \$6,730.12 for the Unlocking Human Potential program were established at June 30, 1996, and are still outstanding. In addition, a receivable of \$16,223.21 for the Steps to Enhance program has been outstanding since June 30, 1997. No invoices could be located to indicate that the funding source had ever been billed for the amounts recorded as receivables, and their collectibility appears questionable.
- b. As discussed with management in the previous audit, Workforce Development—City and Workforce Development—Federal accounts receivable included \$5,986.42 and \$5,393.47, respectively, for expenditures that were not billed to the funding source. No action had been taken since the previous audit. Additional amounts were charged to these accounts during the fiscal years ended June 30, 1998, and June 30, 1997, but no charges have been billed. Since the receivable amounts were not supported by invoices, their collectibility appears questionable.
- c. The Work Keys Service Center receivable of \$13,056.65 at June 30, 1998, could not be supported with specific vendors and invoices. It appeared to be a calculated figure based on the beginning fund balance, receipts, and expenditures. The Work Keys Service Center charges sponsoring companies a fee for each participant, the total of which may exceed the cost of providing the testing. The receivable should therefore be the amount of uncollected testing fees, rather than the difference between program revenues and expenditures. In addition, a professional salary of \$32,669.06 was charged to this account and was therefore included in the expenditures which were used to calculate the receivable at June 30, 1998; however, it was to be paid by the Memphis Area Chamber of Commerce and should not have been charged to expenditures. Payment was subsequently received from the Chamber of Commerce.
- d. Expenditures recorded in the ledger for the Families First program exceeded the amounts invoiced by \$105,800.90 for the fiscal year ended June 30, 1998, and were \$54,986.63 less than the amounts invoiced for the fiscal year ended June 30, 1997. These differences could not be explained. Year-end receivables were set up based on the expenditures in the ledger. Payments received did not always agree with the

invoices submitted, and since the invoices did not agree with the ledger, it was difficult to determine the accuracy of the accounts receivable balances. Of the June 30, 1998, receivable of \$279,715.48, \$159,846.25 has not been collected. Of this amount, \$60,880.95 is the June 30, 1997, balance for the Jobs Career Center, which was not supported by invoices. The remaining amount is the difference between the expenditures recorded in the ledger for the fiscal years ended June 30, 1998, and June 30, 1997, \$2,026,418.31, and the payments received of \$1,927,453.01. As noted above, \$50,814.27 of the expenditures in the ledger were not invoiced. In addition, all of the revenue was recorded as federal revenue even though the source of the funds was both federal and state. Audit reclassifications were made.

Currently, all amounts received for a restricted program are applied to the receivable until the balance is eliminated, and additional receipts are recorded as revenue. Receipts are not matched to invoices to determine if the revenue is applicable to the current or prior year. Therefore, the institute is unable to determine if the amount of the receivable is valid, and any additional amounts owed to the institute cannot be identified and invoiced to the grantor during the period of collectibility.

Recommendation

The director of restricted funds accounting and the accountant for the Office of Job Training should ensure that restricted accounts receivable established at the end of each fiscal year are supported by invoices. If any portion of the receivable is determined to be uncollectible, the balance of the receivable should be reduced accordingly. The amounts invoiced should be supported by the ledger, and receipts should be matched to invoices, with any differences being resolved in a timely manner. The old receivable balances noted should be investigated with appropriate action taken to attempt collection or write-off. The vice president for business and finance and the executive director for the Office of Job Training should monitor and ensure that restricted revenues and accounts receivable are recorded properly.

Management's Comment

- a. We concur with the finding. The receivables of \$16,080.93 for JTPA (STOP) and \$6,730.12 for Unlocking Human Potential were outstanding at June 30, 1996, and are still outstanding. We have contacted the fiscal officer for the Private Industry Council about these outstanding receivables and were instructed to reissue invoices for the outstanding amounts. We have reissued the invoices to the Private Industry Council which will be researched by their staff to verify by their records that payment is due. At the conclusion of the research, any outstanding balances due to State Tech will be paid, according to the fiscal officer for the Private Industry Council. We concur with the finding for Steps to Enhance Personal Sufficiency (STEPS) in the amount of \$16,223.21 as of June 30, 1997. STEPS is a contract with the Department of Human Services. We are in the process of reconciling records with the Department of Human Services to seek collection of these accounts receivable. Any old

account receivable balances still outstanding after attempts to reconcile records and obtain payment from the funding agency will be written off as uncollectible.

- b. We concur that Workforce Development City and Workforce Development Federal have accounts receivable balances for expenditures that were not billed to the funding source. The Workforce Development program ended June 30, 1996. The program staff and activities were assumed by the Jobs Opportunity Basic Skills contract (Welfare Reform). We have contacted the funding agency, the Tennessee Department of Human Services, about all accounts receivable outstanding under contracts between State Tech and the Department of Human Services. All outstanding accounts receivable balances for the Workforce Development programs have been invoiced under the correct contract since the completion of the state audit.
- c. We concur with the finding and have taken steps to correct accounting operations at the Work Keys Service Center. Accounts receivable will be identified and posted for assessment fees due at the end of the fiscal year. A separate account has been established for institutional personnel whose salary and benefits are reimbursed to State Tech by the Memphis Area Chamber of Commerce. Internal controls have been initiated to clearly define financial operations of the Work Keys Service Center and to establish proper accounting controls for this account.
- d. We concur with the finding. State Tech has researched and analyzed the college's records for expenditures, invoices submitted, and revenues for the Families First program beginning July 1996 to the present. This analysis confirms that \$159,846.25 is the correct accounts receivable amount for June 30, 1998. State Tech is working with the Department of Human Services to reconcile records and verify the additional accounts receivable amount due. Invoices will be prepared and submitted to the Department of Human Services for the balance due at June 30, 1998. Full collection is anticipated; any receivable identified as uncollectible will be written off. Revenues have been reclassified appropriately between federal, state, and local. Receivables have been identified by month and by fiscal year so payments can be matched to specific invoices.

Independent Auditor's Report

April 1, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of State Technical Institute at Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1998, and June 30, 1997, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the institute's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, State Technical Institute at Memphis, as of June 30, 1998, and June 30, 1997, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

As discussed in Notes 12 and 13 to the financial statements, the institute implemented GASB 31, *Accounting and Financial Reporting for Certain Investments and for External*

The Honorable John G. Morgan
April 1, 1999
Page Two

Investment Pools, and GASB 16, *Accounting for Compensated Absences*, in conformity with generally accepted accounting principles. Also, as discussed in Note 12, the institute changed the threshold for capitalizing equipment.

The Year 2000 Disclosures on page 28 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the institute is or will become year 2000 compliant, that the institute's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the institute does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 1999, on our consideration of the institute's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sk

TENNESSEE BOARD OF REGENTS
STATE TECHNICAL INSTITUTE AT MEMPHIS
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

	<u>June 30, 1998</u>	<u>June 30, 1997</u>		<u>June 30, 1998</u>	<u>June 30, 1997</u>
ASSETS			LIABILITIES AND FUND BALANCES		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash (Note 2)	\$ 1,889,507.09	\$ 2,012,146.14	Liabilities:		
Accounts receivable (net of allowance of \$77,100.00 at June 30, 1998, and \$63,100.00 at June 30, 1997)	807,678.58	666,238.25	Accounts payable	\$ 85,807.47	\$ 120,238.88
Inventories	23,825.66	28,423.30	Accrued liabilities	269,621.43	233,800.84
Prepaid expenses and deferred charges	104,926.50	84,838.00	Student deposits	16,785.07	16,785.07
Due from restricted current funds	303,968.75	919,952.09	Deferred revenue	1,350,662.00	1,328,045.75
			Compensated absences	1,504,434.94	1,486,320.20
			Other liabilities	223,016.00	266,052.19
			Total liabilities	3,450,326.91	3,451,242.93
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	570,366.54	384,742.21
			Allocation for encumbrances	36,117.86	65,845.00
			Discretionary allocation:		
			Allocation for subsequent budget	400,000.00	1,025,300.00
			Allocation for compensated absences	(1,504,434.94)	(1,486,320.20)
			Unallocated	177,530.21	270,787.84
			Total fund balances	(320,420.33)	260,354.85
Total general	3,129,906.58	3,711,597.78	Total general	3,129,906.58	3,711,597.78
Auxiliary enterprises:			Auxiliary enterprises:		
Cash (Note 2)	35,789.02	207,040.63	Liabilities:		
Accounts receivable	38,835.28	31,492.73	Accounts payable	7,910.47	10,854.22
Inventories	6,938.19	6,354.27	Accrued liabilities	2,718.51	339.60
			Compensated absences	1,153.91	4,080.70
			Total liabilities	11,782.89	15,274.52
			Fund balances:		
			Nondiscretionary allocation:		
			Allocation for working capital	45,773.47	38,847.00
			Discretionary allocation:		
			Allocation for contingencies	25,160.04	25,758.42
			Allocation for compensated absences	(1,153.91)	(4,080.70)
			Unallocated	-	169,088.39
			Total fund balances	69,779.60	229,613.11
Total auxiliary enterprises	81,562.49	244,887.63	Total auxiliary enterprises	81,562.49	244,887.63
Total unrestricted	3,211,469.07	3,956,485.41	Total unrestricted	3,211,469.07	3,956,485.41
Restricted:			Restricted:		
Accrued interest receivable	217.55	217.55	Liabilities:		
Accounts and grants receivable	497,772.68	1,195,566.17	Accounts payable	9,175.17	26,924.82
Prepaid expenses and deferred charges	5,833.00	-	Accrued liabilities	30,473.47	25,976.39
			Due to unrestricted current funds	303,968.75	919,952.09
			Other liabilities	-	46,661.55
			Total liabilities	343,617.39	1,019,514.85
			Fund balance	160,205.84	176,268.87
Total restricted	503,823.23	1,195,783.72	Total restricted	503,823.23	1,195,783.72
Total current funds	\$ 3,715,292.30	\$ 5,152,269.13	Total current funds	\$ 3,715,292.30	\$ 5,152,269.13
Endowment and similar funds:			Endowment and similar funds:		
Cash (Note 2)	\$ 30,000.00	\$ 30,000.00	Fund balances:		
Investments (Note 3)	8,667.18	7,380.00	Endowment	\$ 30,000.00	\$ 30,000.00
			Term endowment	8,667.18	7,380.00
Total endowment and similar funds	\$ 38,667.18	\$ 37,380.00	Total endowment and similar funds	\$ 38,667.18	\$ 37,380.00

TENNESSEE BOARD OF REGENTS
STATE TECHNICAL INSTITUTE AT MEMPHIS
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997

	June 30, 1998	June 30, 1997		June 30, 1998	June 30, 1997
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash (Note 2)	\$ 1,643,202.74	\$ 1,612,492.67	Liabilities:		
LGIP deposit - capital projects	<u>319,286.55</u>	<u>721,995.09</u>	Accounts payable	\$ 2,421.00	\$ -
			Other liabilities	<u>28,383.10</u>	<u>10,887.92</u>
			Total liabilities	<u>30,804.10</u>	<u>10,887.92</u>
			Fund balance:		
			Unrestricted (Note 4)	<u>1,931,685.19</u>	<u>2,323,599.84</u>
Total unexpended plant	<u>1,962,489.29</u>	<u>2,334,487.76</u>	Total unexpended plant	<u>1,962,489.29</u>	<u>2,334,487.76</u>
Renewals and replacements:			Renewals and replacements:		
Cash (Note 2)	<u>1,719,604.40</u>	<u>426,430.51</u>	Liabilities:		
			Accounts payable	<u>29,363.40</u>	-
			Fund balance:		
			Unrestricted (Note 4)	<u>1,690,241.00</u>	<u>426,430.51</u>
Total renewals and replacements	<u>1,719,604.40</u>	<u>426,430.51</u>	Total renewals and replacements	<u>1,719,604.40</u>	<u>426,430.51</u>
Retirement of indebtedness:			Retirement of indebtedness:		
Cash (Note 2)	1,765.84	-	Liabilities:		
Interest rate reserve with Tennessee			Accrued interest payable	<u>4,467.76</u>	-
State School Bond Authority (Note 5)	8,041.38	-	Fund balance:		
Accrued interest receivable	<u>2,701.92</u>	-	Restricted	<u>8,041.38</u>	-
Total retirement of indebtedness	<u>12,509.14</u>	-	Total retirement of indebtedness	<u>12,509.14</u>	-
Investment in plant:			Investment in plant:		
Land	2,821,395.50	1,013,500.00	Liabilities:		
Buildings	17,367,187.90	17,367,187.90	Tennessee State School Bond Authority		
Improvements other than buildings	1,801,303.99	1,798,882.99	indebtedness (Note 5)	<u>1,803,000.00</u>	-
Equipment	9,608,418.02	10,845,057.70	Fund balance:		
Library books	2,388,528.00	2,480,160.00	Net investment in plant	<u>34,112,828.49</u>	<u>34,957,001.95</u>
Other library holdings	1,192,047.00	1,383,567.00	Total investment in plant	<u>35,915,828.49</u>	<u>34,957,001.95</u>
Construction in progress	<u>736,948.08</u>	<u>68,646.36</u>			
Total investment in plant	<u>35,915,828.49</u>	<u>34,957,001.95</u>			
Total plant funds	\$ <u>39,610,431.32</u>	\$ <u>37,717,920.22</u>	Total plant funds	\$ <u>39,610,431.32</u>	\$ <u>37,717,920.22</u>
Agency funds:			Agency funds:		
Foundation:			Foundation:		
Cash (Note 2)	\$ 305,297.08	\$ 266,513.83	Liabilities:		
Investments (Note 3)	3,085.00	2,060.00	Accounts payable	\$ 2,486.30	\$ 34,301.00
Accrued interest receivable	<u>6.80</u>	<u>6.40</u>	Deposits held in custody for foundation	<u>305,902.58</u>	<u>234,279.23</u>
Total foundation	<u>308,388.88</u>	<u>268,580.23</u>	Total foundation	<u>308,388.88</u>	<u>268,580.23</u>
Nonfoundation:			Nonfoundation:		
Cash (Note 2)	<u>224,601.69</u>	<u>207,813.00</u>	Liabilities:		
			Deposits held in custody for others	<u>224,601.69</u>	<u>207,813.00</u>
Total nonfoundation	<u>224,601.69</u>	<u>207,813.00</u>	Total nonfoundation	<u>224,601.69</u>	<u>207,813.00</u>
Total agency funds	\$ <u>532,990.57</u>	\$ <u>476,393.23</u>	Total agency funds	\$ <u>532,990.57</u>	\$ <u>476,393.23</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
STATE TECHNICAL INSTITUTE AT MEMPHIS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds			Plant Funds			
	Unrestricted	Restricted	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	\$ 27,232,226.60	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	503,200.89	-	-	-	-	-	-
State appropriations	-	90,600.00	-	28,894.50	-	-	-
Federal grants and contracts	-	3,675,230.09	-	-	-	-	-
State grants and contracts	-	34,902.87	-	-	-	-	-
Local grants and contracts	-	16,368.00	-	-	-	-	-
Private gifts, grants, and contracts	-	257,446.96	-	-	-	-	-
Investment income	-	2,740.23	-	-	-	3,645.99	-
Endowment income	-	2,300.38	-	-	-	-	-
Net increase in the fair value of investments	-	-	303.01	-	-	-	-
Debt proceeds	-	-	-	1,803,000.00	-	-	-
Expended for plant facilities (including \$794,494.94 charged to current fund expenditures)	-	-	-	-	-	-	3,347,859.17
Other	-	-	-	-	-	-	1,950.00
Total revenues and other additions	27,735,427.49	4,079,588.53	303.01	1,831,894.50	-	3,645.99	3,349,809.17
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	26,496,520.82	4,083,891.83	-	-	-	-	-
Auxiliary enterprise expenditures	336,931.64	-	-	-	-	-	-
Indirect costs recovered	-	10,923.93	-	-	-	-	-
Refunded to grantors	-	835.80	-	-	-	-	-
Expended for plant facilities	-	-	-	2,478,618.22	74,746.01	-	-
Expended for noncapital items	-	-	-	5,796.50	21,318.65	-	-
Interest on indebtedness	-	-	-	-	-	17,707.61	-
Disposal of plant facilities	-	-	-	-	-	-	937,938.19
Equipment inventory adjustments	-	-	-	-	-	-	38,012.25
Library holdings revaluation	-	-	-	-	-	-	412,756.99
Increase in indebtedness	-	-	-	-	-	-	1,803,000.00
Total expenditures and other deductions	26,833,452.46	4,095,651.56	-	2,484,414.72	96,064.66	17,707.61	3,191,707.43
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)							
Mandatory:							
Principal and interest	(22,103.00)	-	-	-	-	22,103.00	-
Nonmandatory:							
Unexpended plant	(649,851.00)	-	-	649,851.00	-	-	-
Renewals and replacements	(970,629.72)	-	-	(389,245.43)	1,359,875.15	-	-
Total transfers	(1,642,583.72)	-	-	260,605.57	1,359,875.15	22,103.00	-
Net increases (decreases) for the year	(740,608.69)	(16,063.03)	303.01	(391,914.65)	1,263,810.49	8,041.38	158,101.74
Fund balances at beginning of year	489,967.96	176,268.87	37,380.00	2,323,599.84	426,430.51	-	34,957,001.95
Cumulative effect of change in accounting principle (Note 12)	-	-	984.17	-	-	-	(1,002,275.20)
Fund balances at beginning of year, as restated	489,967.96	176,268.87	38,364.17	2,323,599.84	426,430.51	-	33,954,726.75
Fund balances at end of year	\$ (250,640.73)	\$ 160,205.84	\$ 38,667.18	\$ 1,931,685.19	\$ 1,690,241.00	\$ 8,041.38	\$ 34,112,828.49

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
STATE TECHNICAL INSTITUTE AT MEMPHIS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds		Endowment and Similar Funds	Plant Funds		
	Unrestricted	Restricted		Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS						
Unrestricted current fund revenues	\$ 27,371,217.27	\$ -	\$ -	\$ -	\$ -	-
Auxiliary enterprise revenues	515,168.48	-	-	-	-	-
State appropriations	-	92,771.00	-	9,464.62	-	-
Federal grants and contracts	-	3,711,261.14	-	-	-	-
State grants and contracts	-	56,901.48	-	-	-	-
Local grants and contracts	-	20,047.90	-	-	-	-
Private gifts, grants, and contracts	-	373,793.74	-	-	-	-
Investment income	-	2,716.81	-	-	-	-
Endowment income	-	2,242.38	-	-	-	-
Equipment use charges	-	-	-	-	176,000.00	-
Expended for plant facilities (including \$907,518.80 charged to current fund expenditures)	-	-	-	-	-	1,066,937.32
Library holdings revaluation (Note 11)	-	-	-	-	-	1,245,185.54
Other	-	1,000.00	-	-	-	15,500.00
Total revenues and other additions	27,886,385.75	4,260,734.45	-	9,464.62	176,000.00	2,327,622.86
EXPENDITURES AND OTHER DEDUCTIONS						
Educational and general expenditures	27,083,157.53	4,281,334.63	-	-	-	-
Auxiliary enterprise expenditures	338,775.47	-	-	-	-	-
Indirect costs recovered	-	8,635.13	-	-	-	-
Expended for plant facilities	-	-	-	98,739.71	60,678.81	-
Expended for noncapital items	-	-	-	6,037.63	-	-
Disposal of plant facilities	-	-	-	-	-	440,197.25
Equipment inventory adjustments	-	-	-	-	-	464,873.76
Other	-	400.00	-	-	-	-
Total expenditures and other deductions	27,421,933.00	4,290,369.76	-	104,777.34	60,678.81	905,071.01
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)						
Nonmandatory:						
Unexpended plant	(808,600.00)	-	-	1,468,557.00	(659,957.00)	-
Renewals and replacements	(6,810.55)	-	-	-	6,810.55	-
Total transfers	(815,410.55)	-	-	1,468,557.00	(653,146.45)	-
Net increases (decreases) for the year	(350,957.80)	(29,635.31)	-	1,373,244.28	(537,825.26)	1,422,551.85
Fund balances at beginning of year	840,925.76	205,904.18	37,380.00	950,355.56	964,255.77	33,534,450.10
Fund balances at end of year	\$ 489,967.96	\$ 176,268.87	\$ 37,380.00	\$ 2,323,599.84	\$ 426,430.51	\$ 34,957,001.95

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
STATE TECHNICAL INSTITUTE AT MEMPHIS
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1998

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES			
Tuition and fees	\$ 7,984,716.52	\$ -	\$ 7,984,716.52
State appropriations	17,898,200.00	90,600.00	17,988,800.00
Federal grants and contracts	10,923.93	3,312,399.24	3,323,323.17
State grants and contracts	-	410,153.10	410,153.10
Local grants and contracts	-	13,320.36	13,320.36
Private gifts, grants, and contracts	458,651.81	255,118.75	713,770.56
Investment income	354,085.64	-	354,085.64
Endowment income	-	2,300.38	2,300.38
Sales and services of auxiliary enterprises	503,200.89	-	503,200.89
Other sources	525,648.70	-	525,648.70
Total current revenues	<u>27,735,427.49</u>	<u>4,083,891.83</u>	<u>31,819,319.32</u>
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	15,675,381.11	1,432,684.67	17,108,065.78
Public service	234,070.99	-	234,070.99
Academic support	2,255,539.43	374,133.54	2,629,672.97
Student services	2,394,626.96	69,928.71	2,464,555.67
Institutional support	3,023,314.78	314,598.07	3,337,912.85
Operation and maintenance of plant	2,252,803.47	-	2,252,803.47
Scholarships and fellowships	660,784.08	1,892,546.84	2,553,330.92
Total educational and general expenditures	<u>26,496,520.82</u>	<u>4,083,891.83</u>	<u>30,580,412.65</u>
Mandatory transfer for:			
Principal and interest	22,103.00	-	22,103.00
Nonmandatory transfers for:			
Unexpended plant	649,851.00	-	649,851.00
Renewals and replacements	760,900.00	-	760,900.00
Total educational and general	<u>27,929,374.82</u>	<u>4,083,891.83</u>	<u>32,013,266.65</u>
Auxiliary enterprises:			
Expenditures	336,931.64	-	336,931.64
Nonmandatory transfer for:			
Renewals and replacements	209,729.72	-	209,729.72
Total auxiliary enterprises	<u>546,661.36</u>	<u>-</u>	<u>546,661.36</u>
Total expenditures and transfers	<u>28,476,036.18</u>	<u>4,083,891.83</u>	<u>32,559,928.01</u>
OTHER DEDUCTIONS			
Excess of transfers to revenues over restricted receipts	-	(4,303.30)	(4,303.30)
Indirect costs recovered	-	(10,923.93)	(10,923.93)
Refunded to grantors	-	(835.80)	(835.80)
Net decreases in fund balances	<u>\$ (740,608.69)</u>	<u>\$ (16,063.03)</u>	<u>\$ (756,671.72)</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
STATE TECHNICAL INSTITUTE AT MEMPHIS
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 7,508,242.37	\$ -	\$ 7,508,242.37
State appropriations	18,174,100.00	92,771.00	18,266,871.00
Federal grants and contracts	8,635.13	3,458,317.20	3,466,952.33
State grants and contracts	-	333,730.16	333,730.16
Local grants and contracts	-	23,912.08	23,912.08
Private gifts, grants, and contracts	827,171.78	370,361.81	1,197,533.59
Investment income	334,702.28	-	334,702.28
Endowment income	-	2,242.38	2,242.38
Sales and services of educational activities	104.00	-	104.00
Sales and services of auxiliary enterprises	515,168.48	-	515,168.48
Other sources	518,261.71	-	518,261.71
Total current revenues	<u>27,886,385.75</u>	<u>4,281,334.63</u>	<u>32,167,720.38</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	16,159,814.92	1,702,043.09	17,861,858.01
Public service	248,062.09	-	248,062.09
Academic support	2,256,067.04	388,893.34	2,644,960.38
Student services	2,494,717.12	109,841.38	2,604,558.50
Institutional support	2,991,560.19	215,647.66	3,207,207.85
Operation and maintenance of plant	2,094,888.28	-	2,094,888.28
Scholarships and fellowships	838,047.89	1,864,909.16	2,702,957.05
Total educational and general expenditures	<u>27,083,157.53</u>	<u>4,281,334.63</u>	<u>31,364,492.16</u>
Nonmandatory transfer for:			
Unexpended plant	808,600.00	-	808,600.00
Total educational and general	<u>27,891,757.53</u>	<u>4,281,334.63</u>	<u>32,173,092.16</u>
Auxiliary enterprises:			
Expenditures	338,775.47	-	338,775.47
Nonmandatory transfer for:			
Renewals and replacements	6,810.55	-	6,810.55
Total auxiliary enterprises	<u>345,586.02</u>	<u>-</u>	<u>345,586.02</u>
Total expenditures and transfers	<u>28,237,343.55</u>	<u>4,281,334.63</u>	<u>32,518,678.18</u>
<u>OTHER DEDUCTIONS</u>			
Excess of transfers to revenues over			
restricted receipts	-	(20,600.18)	(20,600.18)
Indirect costs recovered	-	(8,635.13)	(8,635.13)
Reclassification to other fund	-	(400.00)	(400.00)
Net decreases in fund balances	<u>\$ (350,957.80)</u>	<u>\$ (29,635.31)</u>	<u>\$ (380,593.11)</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
State Technical Institute at Memphis
Notes to the Financial Statements
June 30, 1998, and June 30, 1997**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The institute is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements of the institute have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The institute uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements of the institute have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest; and (3) nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the institute maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified

**Tennessee Board of Regents
State Technical Institute at Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the institute retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include the bookstore and food services. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Term endowment funds are similar to endowment funds, except that after a stated period of time or a particular event, all or part of the principal may be expended.

**Tennessee Board of Regents
State Technical Institute at Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties; and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the institute acts solely as an agent; consequently, transactions of these funds do not affect the institute's operating statements.

LGIP Deposit—Capital Projects

Payments related to the institute's capital projects are made by the State of Tennessee's Department of Finance and Administration. The institute's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the institute for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

Inventories

Inventories are valued at cost on an average-cost or first-in, first-out basis.

Compensated Absences

The institute's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and

**Tennessee Board of Regents
State Technical Institute at Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Interest during construction has not been capitalized. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the institute charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

State Technical Institute at Memphis Foundation

The institute is the sole beneficiary of State Technical Institute at Memphis Foundation. This private, nonprofit foundation is controlled by a board of citizens from the institute's service area who are independent of the institute and are appointed by the institute's president and other members of the foundation's executive committee. The financial records, investments, and other financial transactions are handled by the institute, and the assets and liabilities of the foundation are included in the agency funds on the institute's balance sheet.

NOTE 2. DEPOSITS

The institute's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits.

**Tennessee Board of Regents
State Technical Institute at Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

The institute also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 3. INVESTMENTS

The institute is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the institute and that endowment investments be prudently diversified. The State Technical Institute at Memphis Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

The institute's/foundation's investments are categorized below to indicate the level of risk assumed by the institute/foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the institute/foundation or its agent in the institute's/foundation's name.

June 30, 1998

	<u>Fair Value</u>
Category 1:	
U.S. government securities	\$ 7,396.80
Corporate stocks	3,085.00
Investments not susceptible to credit risk categorization:	
Mutual funds	<u>1,270.38</u>
Total investments on the balance sheet	<u>\$11,752.18</u>

**Tennessee Board of Regents
State Technical Institute at Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

<u>June 30, 1997</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Category 1:		
U.S. government securities	\$5,880.00	\$ 7,117.50
Corporate stocks	2,060.00	2,060.00
Investments not susceptible to credit risk categorization:		
Mutual funds	<u>1,500.00</u>	<u>1,246.67</u>
Total investments on the balance sheet	<u>\$9,440.00</u>	<u>\$10,424.17</u>

NOTE 4. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1998, amounted to \$5,910 for unexpended plant. Plant fund encumbrances outstanding at June 30, 1997, amounted to \$1,314 for renewals and replacements.

NOTE 5. TSSBA INDEBTEDNESS

The Tennessee State School Bond Authority (TSSBA) issues bonds, notes, and commercial paper to finance various capital projects at the state's colleges and universities. The amount loaned to the institute is reported on the balance sheet as TSSBA indebtedness and is for commercial paper.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The institute contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the institute when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

**Tennessee Board of Regents
State Technical Institute at Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

NOTE 6. PENSION PLANS

A. Defined Benefit Plan

During the year ended June 30, 1997, the institute implemented GASB Statement 27, *Accounting for Pensions by State and Local Government Employers*. In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for this plan.

Tennessee Consolidated Retirement System

Plan Description - The institute contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The institute is required to contribute an actuarially determined rate. The current rate is 3.65% of annual covered payroll. Contribution requirements for the institute are established and may be amended by the TCRS' Board of Trustees. The institute's contributions to TCRS for the years ended June 30, 1998, 1997, and 1996, were \$359,597.31, \$747,805.41, and \$650,862.45. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The institute contributes to three defined contribution plans : Teachers Insurance and Annuity Association—Institute Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable

**Tennessee Board of Regents
State Technical Institute at Memphis
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The institute contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the institute to the plans for the year ended June 30, 1998, was \$477,323.40, and for the year ended June 30, 1997, was \$455,953.43. Contributions met the requirements for each year.

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible institute retirees. This benefit is provided and administered by the State of Tennessee. The institute assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 8. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1998, the scheduled coverage for the institute was \$35,033,700 for buildings and \$16,899,826 for contents. At June 30, 1997, the scheduled coverage was \$35,033,700 for buildings and \$13,389,000 for contents.

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The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The institute participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the institute based on a percentage of the institute's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the institute participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the institute for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The institute participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the institute based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Sick Leave - The institute records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$6,111,463.62 at June 30, 1998, and \$5,834,513.17 at June 30, 1997.

Operating Leases - The institute has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$235,361.98 and for personal property were \$173,887.13 for the year ended June 30, 1998. The amounts

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for the year ended June 30, 1997, were \$310,375.84 and \$100,640.53. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1998, outstanding commitments under construction contracts totaled \$19,245.55 for the Sulcer Building renovation, student parking, and reroof of Fulton Building projects, of which \$12,349.50 will be funded by future state capital outlay appropriations.

Litigation - The institute is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

NOTE 10. PLEDGES

At June 30, 1998, unrecorded pledges totaled \$21,000 and were restricted to State Technical Institute at Memphis Foundation's Chance for College program. These pledges are due to be collected during the next fiscal year. It is not practicable to estimate the net realizable value of such pledges; therefore, they are not reflected in the accompanying financial statements.

NOTE 11. CHANGE IN ESTIMATE OF LIBRARY HOLDINGS STANDARDIZED VALUES

At June 30, 1997, the value for library books was increased from \$20 per volume to \$48 per volume, and the standardized values for other library holdings were also increased/decreased by various amounts. As a result of the revaluation, library books increased by \$1,446,760; other library holdings decreased by \$113,401; and net investment in plant, under the investment in plant fund subgroup, increased by \$1,333,359 at June 30, 1997.

NOTE 12. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 1998, the institute implemented GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires reporting at fair value certain investments with a remaining maturity of more than one year at the time of purchase. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance. It was not

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practical to restate prior periods since all information necessary to conform to this accounting change was not available and the amounts were immaterial.

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from \$500 to \$1,000. As a result of the change, equipment decreased by \$1,002,275.20. The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning fund balance.

NOTE 13. PRIOR-YEAR RESTATEMENT

The institute implemented GASB Statement 16, *Accounting for Compensated Absences*. As a result, the beginning fund balance for unrestricted current funds on Exhibit C was decreased by \$1,487,431.71.

NOTE 14. UNRECORDED DONATION

Property located at Wilson Road and Bender has been donated to the Tennessee Board of Regents for State Technical Institute at Memphis and Shelby State Community College. The valuation for each institution and the holder of the title have not yet been determined.

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The Year 2000 Issue (Y2K) arises because many computer software programs allocate two digits to the data field for year with the assumption that the first two digits will be 19. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc., absent programming logic to the contrary. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software, and could impact both the ability to enter data into computer programs and the ability of such programs to correctly process data.

State Technical Institute at Memphis (hereafter referred to as State Tech or the institute) has assessed the impact of Y2K in its computer systems and other electronic equipment. Computer systems are defined as both (1) programmed application systems that provide fiscal and administrative services, and (2) supporting hardware and software computer systems infrastructure upon which the application systems reside and are processed. Other electronic equipment is defined as any electronic hardware that may handle dates with embedded processors, such as fax machines and VCRs.

State Tech has determined that certain computer systems are mission-critical, certain are critical, and certain are supportive. Mission-critical computer systems are those for which there are no reliable manual alternatives, and for which failure to be in Y2K compliance would prevent the institute from fulfilling its mission. Critical computer systems are those for which there are manual alternatives, but the institute would not likely be able to fully or efficiently perform the functions manually because of the volume of manual activity that would be required. Supportive computer systems are those for which there are manual alternatives and the institute expects to be able to perform such functions manually, if necessary.

State Tech has identified three critical computer application systems: the Financial Records System (FRS), the Human Resource System (HRS), and the Student Information System (SIS). FRS and SIS are in the validation/testing stage. The validation/testing stage is defined as validating and testing the changes that were made during the remediation stage. HRS is currently in the remediation stage. The remediation stage is defined as making changes to systems and equipment. The Tennessee Board of Regents will be validating the new version of HRS. All three critical application systems will complete validation and testing by the end of October 1999. Completion of these stages is not a guarantee that systems and equipment will be year 2000 compliant.

State Tech's mid-level computer system has also been determined as critical because it provides a part of the supporting computer system infrastructure upon which the

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application systems reside and are processed. The mid-level system represents multiple hardware and software components to include a central processor, disk storage, memory, and operating system. Other less critical components of the infrastructure are terminals, terminal servers, terminal emulation software, and the network infrastructure that connect them. State Tech will complete the remediation stage by upgrading the existing system during the fall of this year. State Tech will complete validation/testing of the upgrade system by December 1999. Completion of these stages is not a guarantee that systems and equipment will be year 2000 compliant.

State Tech's telecommunications system has also been identified as critical to the institute's operation. We are in the process of evaluating replacement system requirements and will complete the remediation stage by replacing the system in July 1999. State Tech will require new telephone equipment to be Y2K compliant as a requirement for purchase. Validation/testing will be completed upon receipt of the new equipment. Completion of these stages is not a guarantee that systems and equipment will be year 2000 compliant.

State Tech has formed a Team 2000 task force to address year 2000 issues and impact on a much broader scale. Team 2000 is in the process of developing a user survey designed to identify all supportive computer systems and other equipment that may be impacted. The survey data will be available March 15, 1999, to permit any required modifications to be tested and completed by the end of the year. Team 2000 is also addressing non-technical issues such as preprinted forms without four-digit years or with a pre-printed prefix of 19 that could affect the institute business processes.

State Tech has committed funding to deploy desktop computers this year and replace one-third of desktop systems every year. Combining the fact that the majority of systems are being deployed this year and that funding has been committed to replace another third of the systems starting in the fall of 1999 (with the new fiscal year), we anticipate our exposure to Y2K problems will be minimal for desktop computer systems. Team 2000 findings will allow us to insure that any noncompliant desktop systems not replaced in the initial deployment will be among the third replaced in the first half of fiscal year 1999-2000.

State Tech's Y2K initiatives did not result in the commitment of significant financial resources beyond already planned equipment renewal and replacement. State Tech is not aware of any circumstances or significant costs not already outlined here to

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achieve Y2K compliance that will have a negative impact on the operations or financial status of the institute.

The institute has begun soliciting information from other organizations regarding the status of their assessment, remediation, and testing of their computer systems whose Y2K compliance could effect the institute's operations. Of the organizations that have responded to date, all expect to achieve compliance in a manner that will not have a materially negative effect on the institute's operations or financial status although no assurances can be given that circumstances will not change. The institute does not have full and complete information, however, from these other organizations regarding the status of implementing Y2K compliance. Any failure by some or all of these organizations to be in Y2K compliance may have a materially negative impact on the institute's operations or financial status.